SERVICES TRADE, REGULATION AND GVCs

Dorothée Rouzet, OECD Trade and Agriculture Directorate

Multi-year Expert Meeting on Trade, Services and Development

Geneva, 11-13 May 2015
Outline

• Services as links in GVCs: services value-added in manufacturing
• Trade costs and trade policies in services
• Services regulation and manufacturing competitiveness

• Sources: OECD work on services and trade
  – Global value chains and Trade in Value-Added
  – Services Trade Restrictiveness Index
Services add value to manufacturing trade: total trade

Services value-added in gross manufacturing exports

- Domestic
- Foreign

OECD Trade and Agriculture Directorate
Services add value to manufacturing trade: electronics

Services value-added in gross exports
Electrical and optical equipment

- Domestic
- Foreign

<table>
<thead>
<tr>
<th>Country</th>
<th>Domestic</th>
<th>Foreign</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>25%</td>
<td>75%</td>
</tr>
<tr>
<td>Malaysia</td>
<td>40%</td>
<td>60%</td>
</tr>
<tr>
<td>Indonesia</td>
<td>30%</td>
<td>70%</td>
</tr>
<tr>
<td>China</td>
<td>35%</td>
<td>65%</td>
</tr>
<tr>
<td>Brazil</td>
<td>50%</td>
<td>50%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>45%</td>
<td>55%</td>
</tr>
<tr>
<td>Mexico</td>
<td>30%</td>
<td>70%</td>
</tr>
<tr>
<td>Thailand</td>
<td>40%</td>
<td>60%</td>
</tr>
<tr>
<td>Japan</td>
<td>50%</td>
<td>50%</td>
</tr>
<tr>
<td>Philippines</td>
<td>40%</td>
<td>60%</td>
</tr>
<tr>
<td>Korea</td>
<td>45%</td>
<td>55%</td>
</tr>
<tr>
<td>Switzerland</td>
<td>35%</td>
<td>65%</td>
</tr>
<tr>
<td>Singapore</td>
<td>25%</td>
<td>75%</td>
</tr>
<tr>
<td>EU27</td>
<td>30%</td>
<td>70%</td>
</tr>
<tr>
<td>Germany</td>
<td>35%</td>
<td>65%</td>
</tr>
<tr>
<td>India</td>
<td>50%</td>
<td>50%</td>
</tr>
<tr>
<td>Italy</td>
<td>45%</td>
<td>55%</td>
</tr>
<tr>
<td>France</td>
<td>40%</td>
<td>60%</td>
</tr>
<tr>
<td>Finland</td>
<td>60%</td>
<td>40%</td>
</tr>
</tbody>
</table>
Trade costs are larger in services than in goods

![Graph showing Ad valorem equivalent of overall trade frictions in services]

Source: Miroudot and Shepherd (2014)
Trade costs are larger in services than in goods

Ad valorem equivalent of overall trade frictions (2011)

Source: Miroudot and Shepherd (2014)
Trade policy barriers and regulatory coherence

- The OECD Services Trade Restrictiveness Index documents and quantifies trade restrictions
  - 19 services sectors and 42 countries

- Distinguishing trade restrictions from appropriate domestic regulation
  - Addressing market failures vs restricting entry to protect incumbents
  - E.g. telecoms: If there is a dominant supplier, the absence of regulation is a barrier to competition

- Both trade openness and regulatory coherence matter for services competitiveness
  - Heterogeneity indices measure the similarity of services regulations across countries – a different dimension
  - High STRI and high regulatory heterogeneity lower services imports and exports
  - The impact of regulatory coherence is largest at higher levels of trade liberalisation
Commitments and policies in services: “Water” in the GATS (average of 15 sectors)

Level of trade restrictions permitted by the GATS (bound level)

Actual level of trade restrictions (STRI)
Policy barriers to services trade slow down the operations of GVCs…

Trade restrictiveness in transport services and time for exports and imports (2013)

Source: Nordas and Rouzet (2015)
... And hamper manufacturing competitiveness

• Trade restrictions in a wide range of services discourage exports in the car industry:
  – Most sensitive to road and maritime transport: connectivity is key
  – But also IT services, insurance, banking, accounting, telecoms

• More open trade policies in financial services are associated with:
  – Higher exports and lower imports of goods in industries dependent on external finance
  – Especially in intermediate segments
  – Higher quality goods exports

☞ GVCs are particularly intensive in services compared to “traditional” trade
☞ Services quality and efficiency are essential to be competitive in high-end segments of the supply chain
Conclusion

• Trade costs are high in services – “natural” but also policy barriers

• The potential gains from further trade in services are largely untapped
  – Both open trade policies and regulatory coherence foster trade and investment in services
  – Benefits not only for services sectors but also enhancing manufacturing competitiveness
  – Appropriate regulation matters, especially for infrastructure and network services: ensuring a level playing field and addressing market failures
  – The main policy challenge is to safeguard regulation for non-market public policy objectives at the least cost for economic competitiveness

• The business reality is that services and goods are intertwined: key role of services efficiency in GVCs – as opposed to “silo approach”
Thank you for your attention

Dorothee.Rouzet@oecd.org

Visit our website: http://www.oecd.org/trade